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S E C R E T SECTION 01 OF 03 HARARE 000046

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AF/S FOR B. NEULING
NSC FOR SENIOR AFRICA DIRECTOR C. COURVILLE
STATE PASS TO USAID FOR M. COPSON AND E. LOKEN
TREASURY FOR J. RALYEY AND B. CUSHMAN

E.O. 12958: DECL: 01/12/2016
TAGS: [ECON](#) [EFIN](#) [PGOV](#) [ASEC](#) [ZI](#)
SUBJECT: INFLATION ENDS 2005 ON A HIGH, POISED FOR INCREASE
IN 2006

REF: A. HARARE 016871
[1B](#). TD-314/01587-06

Classified By: Ambassador Christopher Dell under Section 1.4 b/d

[¶1.](#) (S/NF) Summary: The GOZ's Central Statistical Office (CSO) reported that the cost of living increased to 585.8 percent in December, up from the annualized November rate of 502 percent (ref A). A steep increase in the price of transportation services and food dominated the month-on-month rise in the official figure. Sensitive reporting (ref B) indicated that the Reserve Bank of Zimbabwe (RZB) determined that the inflation rate through November was in quadruple digits, but had ordered the CSO to understate the figure. PricewaterhouseCoopers analyses put the annualized cost of living increase at 987 percent for low-income earners, primarily driven by the skyrocketing cost of rent plus sharp increases in the cost of consumables and food. The CSO said that the total consumption poverty datum line for a family of five increased to Z\$17.26 million (US\$194 at the interbank exchange rate of Z\$88,700:US\$1 and US\$172 at the parallel market rate of Z\$100,000:US\$1) in December, while the Food Poverty Line rose to Z\$6.792 million, pushing more people into poverty as wages have not kept pace with inflation. With steep price increases introduced in municipal services and school and medical fees on January 1, the mood is grim and there is no end in sight to hyperinflation. End Summary.

Inflation Pegged Officially at 586 Percent; Quadruple-Digit
Rate More Likely

[¶12.](#) (U) The GOZ's Central Statistical Office (CSO) reported January 10 that the annualized rate of inflation reached 585.8 percent in December, barely easing off its sharp trajectory from 411 percent in October to 502.4 percent in November (ref A). The average price increase in the consumer basket was 18.3 percent for the month of December. Transportation services were among the fastest rising items in cost, along with bread and cereals, meat and milk. The rate of increase in the cost of food and non-alcoholic beverages, which make up about a third of the CSO consumer basket, ended the year at 717 percent, while non-food inflation stood at 522 percent. Often criticized for producing inaccurate statistics, the CSO confirmed to the press on January 9 that it would undertake a household budget survey in the next months to get more accurate data about family spending patterns and consumer price indices.

[¶13.](#) (S/NF) The CSO may consciously be understating inflation by about 100 percent. According to sensitive reporting (ref B), the Reserve Bank in late November determined that the annualized inflation rate at that time was 1121 percent but directed the CSO to publicly release a figure of 512 percent; it eventually announced the 502.4 percent figure.

[¶14.](#) (SBU) The more respected PricewaterhouseCoopers Cost of Living Analyses, which differentiate by income bracket, put the December annualized cost of living increase at 987 percent for low-income earners, 747 percent for high-income earners, and 662 percent for middle-income earners. The month-on-month figure for the three income groups was 24.77 percent, 24.73 percent and 30.40 percent respectively. Driving the low-income inflation rate, once again, was rent (up 2300 percent for the year for a 2-room accommodation), consumables (up 1560 percent) and "other food" (up 1137 percent and dominated by sharp increases in the price of sugar, margarine, salt, flour, and mealie meal).

[¶15.](#) (U) The CSO also said that the total consumption poverty datum line for a family of five had increased to Z\$17.26 million (US\$194 at the interbank exchange rate of Z\$88,700 and US\$172 at the parallel market rate of Z\$100,000) in December, while the food poverty line rose to Z\$6.792 million. The cost of the low-income urban monthly consumer

basket used by the Consumer Council of Zimbabwe rose 876 percent in 2005, ending the year at Z\$16.6 million.

No Easing In Sight

16. (U) The New Year heralded numerous sharp price hikes in services that will continue to fuel inflation in January and beyond. Charges at Harare's burial grounds were set to increase on January 1 from Z\$750,000 to Z\$8.5 million (i.e. from US\$19 to US\$95 at the interbank exchange rate) for an adult grave and Z\$4.2 million for children. The rate is due to rise further to Z\$17 million (US\$191 at the interbank rate) and Z\$8.5 million respectively in July. The Zimbabwe Medical Association announced a sharp increase in consultation fees effective on January 1. Patients are now paying between Z\$1 and 2 million (between about US\$9 and 18) for a consultation with a general practitioner, up from about Z\$300,000 previously, and between Z\$3 and 4 million for a specialist.

17. (U) Zimbabwe National Water Authority increased tariffs by between 30 and 100 percent on January 1 to meet the rising cost of chemicals used in the purification process. Water tariffs had most recently risen by 80-100 percent in September. (N.B. The state-controlled press reported in mid-December that Harare municipal water failed to meet the minimum health specifications of the World Health Organization and of the Standards Association of Zimbabwe.)

18. (SBU) Price hikes in school fees, uniforms, and book prices at the start of the new term this week have been a further contentious pocket book issue. The Ministry of Education, Sport and Culture issued guidelines in December limiting fee hikes since the last term to 150 percent. Nevertheless, anecdotal reports from embassy employees indicate that private school fees have jumped about 200 percent from the August to January terms.

Comment

19. (SBU) In any event, skyrocketing price hikes are making paupers out of the average Zimbabweans, who have seen their wages stagnate and their purchasing power evaporate. Especially hurt is the ever-shrinking middle class who must also cope with an inescapable decline in municipal services. While Zimbabweans remain proud that infrastructure standards are still higher here than in most neighboring countries, the capital's streets, for example, are fuller than ever with potholes after recent abundant rains. A nighttime drive in the city is a daunting zigzag around crater-sized potholes through unlit streets and across major intersections without the benefit of stoplights. Garbage collection is erratic, if it occurs at all, forcing Harare municipal government to shut down its main vegetable market and prohibit public vending of fish and meat to prevent the spread of isolated cases of cholera.

10. (SBU) Christmas celebrations were somber, limited by the high cost of food and consumables, fuel and transport, the erosion of disposable income, and the impending January school fee bills. Zimbabweans entered the New Year in a grim mood without much faith that the GOZ's oft-promised economic turnaround would kick off any time soon. To date, however, we have seen no signs that the ever-present grumbling of discontent over forking over more and more cash at the register presents an immediate danger to the regime. Ever more resentful of a regime perceived as increasingly remote, unfeeling and incompetent, the growing ranks of paupers nonetheless appear overwhelmingly consumed with simply making ends meet.
DELL